

Sewa Bikas Bank Limited

ICRA Nepal assigns [ICRANP] IPO Grade 4+ to the proposed equity shares (Rights Issue) of Sewa Bikas Bank Limited

ICRA Nepal has assigned an “[ICRANP] IPO Grade 4+”, indicating below average fundamentals to the proposed right issue amounting NPR. 51.52 million of Sewa Bikas Bank Limited (SBBL). ICRA Nepal assigns IPO grading on a scale of IPO Grade 1 through IPO Grade 5, with Grade 1 indicating strong fundamentals and Grade 5 indicating poor fundamentals. For the Grading categories 2, 3 and 4, the sign of + (plus) appended to the Grading symbols indicate their relative position within the Grading categories concerned. Thus, the Grading of 2+, 3+ and 4+ are one notch higher than 2, 3, and 4, respectively. SBBL is proposing to come out with a right offer of 515,200 numbers of equity shares of face value NPR 100/- each to be issued to its shareholder.

The grading is constrained by regional concentration of SBBL’s operations, lack of diversity in earnings, competition from commercial banks with wider product suite and uncertain operating environment that banks in Nepal are currently facing. The grading is also constrained by absence of strong promoter base and independent directors on board of SBBL. Nonetheless, the grading factors in adequate profitability indicators (PAT/ATA 2.21% and return on net worth of 20.46% for 9M, FY2014), superior asset quality indicators (Gross NPLs 0.14% as on mid-Apr-14) leading to good solvency profile (net NPA/net worth of 0.54% as on mid-Apr-14) partly benefitted by low seasoning of credit book with higher exposure in revolving loan, adequate proportion of low cost deposit base (CASA¹ 48% as on mid-Apr-14) and regulatory advantage available with ‘Schedule B’ Development Bank compared to ‘Schedule A’ Commercial Bank in the form of lower SLR/ CRR² requirements. However, SBBL’s portfolio vulnerability remains high due to relatively inferior borrower profile vs. commercial banks, high proportion of loans with assessed income based appraisal which could lead to higher volatility in asset quality indicators. Going forward, SBBL’s ability to maintain asset quality indicators; grow profitability; manage capital and increase its client base/ presence judiciously would have a bearing on the overall financial profile. The proposed rights issue would enable the bank augment its capital base in line with its plans to increase scale of operations to ten districts from three districts currently.

SBBL started its operations in Feb-2007, and has a credit portfolio of NPR 2,517 million as on mid-Apr-2014. Being a three-district development bank, SBBL is allowed to operate in limited geographical area (Rupandahi, Kapilbastu & Nawlparasi). In October 2013, the bank got the approval from NRB to expand its operations in ten districts. Expansion in geographical area is expected to offer adequate growth opportunities to bank, however at the same time promoters’ knowledge/reputation could be limited to local market which could be a restraint for growth as well as their ability to maintain asset quality profile.

The bank’s credit portfolio grew at CAGR of 40% over the last four years) to NPR. 2,517 million as on mid-April-2014. The portfolio comprised mainly overdraft to SMEs (around 33%), home loan (22%), Hire Purchase loan (11%), personal overdraft (10%), term loan (10%), deprived sector (5%)

¹ Current Account & Saving Deposit

² Statutory Liquidity Ratio/ Cash Reserve Ratio



and others Loans (9%). SBBL's Gross NPLs & Net NPLs stood at 0.14% and 0.07% as on mid-Apr-14 against the Nil gross NPLs as on mid-Jul-12; partly benefitting from low seasoning of credit book. Furthermore, SBBL's portfolio vulnerability remains high due to relatively inferior borrower profile, high portion of revolving loan and assessed income based appraisal which could lead to higher volatility in asset quality indicators.

As for funding profile, the bank has been successful in garnering adequate proportion of low cost deposits which accounted for around 48% of its total deposits; although lower than development banking industry average low cost deposit of 55% as on mid-Apr-2014. SBBL's cost of funds is higher vis-a-vis commercial banks and large size development banks which impacts its competitive positioning.

SBBL has been able to maintain adequate Net Interest Margins (NIMs) (around 3.5-4.5%), and lending largely to SMEs/ individuals wherein the bank is able to garner higher yield on advances. SBBL's Profit After Tax (PAT) increased by around 13% in 2012-13 to NPR. 33.43 million as against NPR. 29.6 million during 2011-12 and further increased to NPR 51.05 million during 9M 2013-14; supported by stable NIMs and increase in scale of operations translating into higher operating efficiencies. Overall, SBBL's return on net worth has stood at around 15% over last 4 years. Going forward, SBBL's ability to maintain adequate NIMs and control on asset quality profile would be critical for its profitability profile.

Over the last two years SBBL has maintained a Capital Risk Weighted Adequacy Ratio (CRAR) of around 11.5% against minimum regulatory requirement of 11%. As per ICRA Nepal's estimate, current level of capital (including proposed right share and internal capital generation) will support the growth plans of management (CAGR³ 25%) over medium term (next 2 years); maintaining overall capitalization in the range of around 11-12% with solvency indicators expected to remain range bound at 1-2%, if the bank is able to maintain the NPLs at present levels. In the long run, the ability of SBBL to raise additional capital from its existing/ external investors will have a strong bearing on SBBL's growth prospects and overall capitalization profile.

Company Profile

Established in 2007, Sewa Bikas Bank Limited (SBBL) is a regional development bank licenced by Nepal Rastra Bank to conduct banking transactions within three districts (Rupandahi, Kapilbastu & Nawlparasi). The bank has obtained approval to expand its activities up to ten districts from Nepal Rastra Bank on October 2013. The shareholding of the bank is diversified across 111 individual promoters (60%) and public (40%) as on mid-Apr-2014. The registered office is in Butwal Municipality, Rupendehi district, which is also the Head Office of the Bank.

SBBL has now presence in three districts of the country through its 10 branches with seven ATMs. SBBL has market share of about 1.56% in terms of deposit base and 1.65% of total advances of development banks in Nepal as on mid-April-2014. SBBL reported a profit after tax of NPR. 33.42 million during FY 2012-13 over an asset base of NPR 2,800 million as on Jul-13 against profit after tax of NPR 29.6 million during 2011-12 over an asset base of NPR 2,279 million as on Jul-12. In 9M 2013-14, SBBL has reported profit after tax of NPR. 51.05 million over an assets base of NPR. 3,367 million as on mid-Apr-14. Bank has been able to maintain adequate capital adequacy (CRAR) of 11.67% and superior assets quality profile with gross NPLs of 0.14% as on mid-Apr-2014. In terms of technology platform, SBBL has implemented 'Trust Bank' in all of its branches.

³ Compounded Annual Growth Rate



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